E/2004/33

United Nations

Committee for Development Policy

Report on the sixth session (29 March-2 April 2004)

Economic and Social Council
Official Records, 2004
Supplement No. 13

Economic and Social Council
Official Records, 2004
Supplement No. 13

Committee for Development Policy

Report on the sixth session (29 March-2 April 2004)

United Nations • New York, 2004

Note

Symbols of United Nations documents are composed of capital letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

ISSN 0257-0661

Summary

The present report contains the main findings and recommendations of the sixth session of the Committee for Development Policy, held at United Nations Headquarters from 29 March to 2 April 2004. The Committee addressed three major themes. The first involved measures to improve resources mobilization and the enabling environment for poverty eradication in the context of the implementation of the Programme of Action for the Least Developed Countries for the Decade 2001-2010 (the theme adopted by the Economic and Social Council for its high-level segment in 2004). The Committee also addressed the question how to evaluate progress towards good governance in the context of the implementation of the Millennium Development Goals. In addition, the Committee dealt with matters related to its 2003 triennial review of the list of least developed countries.

With regard to the theme of the Economic and Social Council's high-level segment, the Committee draws attention to the fact that economic growth and poverty reduction require the mobilization of financial resources at both national and international levels, and that the resources mobilized will depend on a variety of factors, including the development of effective partnerships with donors allowing for increased quantity and quality of aid, as well as the ability to mobilize domestic resources. Among the obstacles to resource mobilization are weak fiscal and financial policies, macroeconomic instability, limited formal savings and capital flight, as well as external indebtedness and difficulties in generating new exports. The Committee makes a number of recommendations aimed at removing some of the obstacles that constrain the mobilization of domestic resources, as well as enhancing the impact of aid, attracting foreign direct investment (FDI) and enhancing the local productive capacity. It also notes that channelling investment to the areas where the poor are most active is a key element in a sustainable growth-enhancing strategy for poverty reduction.

The Committee considers that good governance could be instrumental for achieving the goals of poverty reduction only if the process of measurement and assessment is not biased in favour of external criteria relevant to the donors, investors and international monitoring bodies, as opposed to the internal perspective of the country. In designing institutions and mechanisms for good governance in developing countries, an interactive process between donors and recipient countries is thus essential. On the one hand, measures imposed by donors have often lacked success when they failed to pay due consideration to the culture and history of recipient countries. On the other hand, recipient countries need assistance from donors to bring their institutions and social, political and economic processes closer to those required by good governance. A specific proposal of the Committee was that least developed countries be invited to participate in the deliberations of institutions where global norms and standards for aspects of good governance are established.

With regard to the 2003 triennial review of the list of least developed countries, the Committee confirmed the conclusion of its fifth session that Cape Verde and Maldives qualified for graduation from the list of least developed countries and recommended that they be graduated from the least developed country category. At the same time, the Committee stressed the need for a smooth transition strategy to be put in place by both the countries themselves and the international community. The session included presentations from and exchanges of ideas with selected

international organizations on the benefits available to least developed countries; this interaction contributed to the Committee's proposals on smooth transition strategies for countries that graduate from the list of least developed countries. Among the measures to ensure a smooth transition for those countries, the Committee proposed that the United Nations convene an ad hoc country advisory group, in which the graduated country, in cooperation with its development partners, would identify measures to ensure that its development was maintained. The guiding principle of this initiative is that specific transition support measures, monitoring arrangements and the period of transition will be decided on a case-by-case basis so that the development progress of graduated countries is not interrupted or reversed.

Contents

Chapter		*Page*
I.	Matters calling for action by the Economic and Social Council or brought to its attention	1
	A. Matters calling for action by the Council	1
	B. Matters brought to the attention of the Council	2
II.	Resources mobilization and enabling environment for poverty eradication in the context of the implementation of the Programme of Action for the Least Developed Countries for the Decade 2001-2010	4
	A. Challenges to resource mobilization	4
	B. Recommendations	6
III.	Commitment to good governance, development and poverty reduction	9
	A. The evolving concept of good governance	9
	B. Measuring good governance for poverty reduction	10
	C. Recommendations	13
IV.	Matters related to the 2003 triennial review of the list of least developed countries	15
	A. Criteria for the identification of the least developed countries	15
	B. Period of transition from least developed country status	16
	C. Smooth transition strategies for countries that graduate from the list	16
V.	Organization of the session	19
Annexes		
I.	List of participants	20
II.	Agenda	22
III.	List of documents before the Committee at its sixth session	23

Chapter I

Matters calling for action by the Economic and Social Council or brought to its attention

A. Matters calling for action by the Council

2003 triennial review of the list of least developed countries

Recommendation 1: Graduation of Cape Verde and Maldives from the least developed country category

1. The Committee reviewed its conclusion at its fifth session that Cape Verde and Maldives qualified for graduation from the list of least developed countries, according to the criteria endorsed by the Economic and Social Council. The Committee confirmed that Cape Verde and Maldives did qualify for graduation for the reasons elaborated in the report of its fifth session[1] and recommended to the Council that they be graduated from the least developed country category.

Recommendation 2: Smooth transition strategy for countries graduating from the least developed country category

2. The Committee stressed the need for a smooth transition strategy to be put in place by both the countries themselves and the international community, as elaborated in recommendations 3 and 4 below. In order to avoid a negative shock from graduation, and as with all development strategies, the developing countries themselves (in this case, graduated least developed countries) should play the central role in the formulation and implementation of the smooth transition strategy. All development partners — notably relevant organizations of the United Nations system, donor countries and members of the World Trade Organization — should facilitate this transition through the continued provision of development financing, trade-related assistance and technical cooperation, as well as the maintenance, for a transition period, of existing preferential treatment applicable to least developed countries.

Recommendation 3: Pre-graduation smooth transition measures

3. The Committee recommended to the Economic and Social Council that the pre-graduation transition period (chap. I, para. 7, and chap. IV.B below) should trigger the preparation of a vulnerability profile by the United Nations Conference on Trade and Development (UNCTAD), in cooperation with the least developed country concerned. It further recommended that the vulnerability profile include both information about the effective benefits available to the country as a least developed country, and measures that could be required to prepare the country for smooth transition if it was deemed to qualify for graduation after the second consecutive triennial review.

[1] *Official Records of the Economic and Social Council, 2003, Supplement No. 13* (E/2003/33).

Recommendation 4: Post-graduation smooth transition strategy

4. Among the measures to ensure a post-graduation smooth transition for countries graduated from least developed country status (see also chap. IV.B), the Committee recommended that the Economic and Social Council endorse the following recommendations and proposals, all of which should be applied in the cases of Cape Verde and Maldives:

(a) That there be the provision of adequate technical assistance — by both bilateral and multilateral development partners — to graduated countries so as to ensure a smooth transition from the least developed country category, including the maintenance of adequate technical assistance through the Integrated Framework for Trade-related Technical Assistance to Least Developed Countries;

(b) That the United Nations convene an ad hoc country advisory group in which the graduated country, in cooperation with its bilateral and multilateral development partners, would identify measures — in the areas of trade-related preferences, development finance and technical cooperation — to ensure that its development progress would not be interrupted or reversed, the guiding principle being that specific transition support measures, monitoring arrangements and the period of transition would be decided on a case-by-case basis inasmuch as graduation was likely to present different countries with different challenges;

(c) That, with regard to trade-related preferences, in particular, this being considered essential by the Committee, key development partners — such as the European Union with regard to its Everything-but-Arms initiative — take the initiative to ensure that graduated countries continued to benefit from existing trade preferences for the required smooth transition period after graduation.

B. Matters brought to the attention of the Council

1. Theme of the Council's 2004 high-level segment

5. The Committee was of the view that economic growth and poverty reduction required concerted measures to mobilize resources at both national and international levels. In reaching its conclusions on this subject, the Economic and Social Council may wish to take into account the analysis and recommendations of the Committee contained in chapter II of the present report.

2. Commitment to good governance, development and poverty reduction

6. Members of the Economic and Social Council may wish to reflect on the Committee's analysis and recommendations on this matter, as contained in chapter III of this report, inter alia, in the Council's deliberations in its high-level segment.

3. The 2003 triennial review of the list of least developed countries

7. The Committee has identified two periods of transition for countries graduating from the least developed country category, namely, the *pre-graduation* and *post-graduation* transition periods (see chap. IV.B below). The Committee is of the view that a pre-graduation smooth transition should include identifying measures at both national and international levels to prepare a least developed country for the loss of benefits that it might incur if it was confirmed for graduation by both the

Economic and Social Council and the General Assembly at the end of the three-year transition period, following the Committee's initial identification of its eligibility for graduation. In the case of post-graduation transition, a smooth transition strategy would relate to further steps (as elaborated in recommendation 4 above) to be taken so as to ensure that the graduated country continued to build on the commendable progress that had been reflected in its graduation.

Chapter II

Resources mobilization and enabling environment for poverty eradication in the context of the implementation of the Programme of Action for the Least Developed Countries for the Decade 2001-2010

1. The Programme of Action for the Least Developed Countries for the Decade 2001-2010 (A/CONF.191/11) calls for growth rates in the least developed countries of at least 7 per cent and investment rates of 25 per cent of gross domestic product (GDP) to provide a basis for improving the economic and social conditions of the more than 600 million inhabitants of the 50 least developed countries (para. 6 of the Programme of Action). Achieving and sustaining the target rate of growth will require mobilizing substantial financial resources domestically and externally. Moreover, it will require policy makers to accommodate structural, fiscal and other growth-enhancing reforms, while at the same time maintaining domestic macroeconomic stability to support growth and striving to meet the needs of the poor. This is a complex and demanding task for any country, but especially so for least developed countries facing severe inadequacies in terms of institutional, human and financial resources.

2. The amount of financial resources that individual least developed countries can mobilize will depend upon: (a) their ability to mobilize domestic resources, through improved budgetary management and revenue collection and improved private savings and investment opportunities; (b) their ability to generate foreign exchange through increased exports, and remittances; (c) their ability, in partnership with donors, to reduce existing debt burdens while increasing the quantity, quality and effectiveness of new aid flows; and (d) their ability to attract private capital (investment and commercial inflows) and reverse capital flight, where it has occurred.

3. Growth will, by itself, generate opportunities for further growth as unemployed and underemployed human and other resources are mobilized for productive purposes, generating income, saving and new investment opportunities.

A. Challenges to resource mobilization

1. Macroeconomic conditions

4. A key obstacle to mobilizing resources in least developed countries is macroeconomic instability, aggravated by the lack of depth and resilience of the domestic market economy. As least developed countries are primary commodity producing countries, both their export revenues and domestic incomes are subject to the vagaries of international markets and local weather. In this environment, the formulation and implementation of monetary and fiscal policy are particularly difficult. In addition, data to inform policy decisions are often scarce, and techniques and institutions for funding government activities are poorly developed.

5. Measures to improve public sector finances, from both the expenditure and revenue sides, have been attempted in many least developed countries with limited success. Financial sector reforms have also been undertaken to create a robust and healthy financial sector, including liberalizing interest rates, privatizing State-owned

banks, allowing foreign participation in the banking sector, curtailing lending by State-owned banks and closing loss-making bank branches (often in rural areas). The results have been generally disappointing: for the most part, financial sectors in least developed countries have remained narrow and underdeveloped, offering only a limited range of products and demonstrating a strong reluctance to take long-term risks. Moreover, limited headway has been made in strengthening prudential regulation and supervision, leaving domestic financial systems vulnerable and crisis-prone.

2. Formal and informal savings

6. The informal sector plays a key role in reallocating resources and generating employment for the survival of a large proportion of the population deprived of other alternatives. Informal subsistence strategies are rooted in traditional links of kinship and solidarity, reflecting the cultural particularities of these societies. One challenge is to establish links between the informal and formal systems so that financial transfers increasingly flow through the banking system and, in so doing, further deepen and broaden financial intermediation for the economy as a whole. A case in point is the transfer of remittances: if carried out through formal financial channels, they could have a far greater local multiplier effect. Similarly, access to credit by small and medium-sized enterprises and many rural activities in least developed countries is hampered by the lack of adequate collateral, either because they possess few assets or because those assets they possess are not properly registered or held communally. Hence, measures need to be adopted to ensure that property rights can be exercised and additional financial resources mobilized.

3. Generating new exports

7. Despite enjoying some preferential treatment for their exports, the vast majority of least developed countries have found it difficult to diversify their exports, partly because they have been unable to diversify and modernize their productive structures in the first place. In addition, they have been constrained by their limited capacity to identify new export opportunities, the absence of institutions and facilities to comply with international trade standards, and limited infrastructure for moving products from points of production to port and market. More needs to be done to provide farmers and other potential exporters with access to credit, technical assistance and marketing support to develop new lines of activity. In addition, attention needs to be paid to services, where least developed countries may be able to find niche markets in a rapidly globalizing world.

4. Reducing external debt burdens and enhancing the impact of aid

8. The debt burdens of most least developed countries had, by the early 1990s, reached unsustainable levels. The Heavily Indebted Poor Countries (HIPC) Initiative has ameliorated the situation, but has not resolved the problem. Many potentially eligible countries have not yet benefited from the Initiative, while debt sustainability has not necessarily been achieved in those countries that have benefited, largely because of unrealistic assessments of economic growth used in estimating sustainability. Without effective debt relief, the development prospects of least developed countries are bleak.

9. Least developed countries also require fresh resources. Until recently, aid flows stagnated. Donor countries need to fulfil the internationally accepted targets for development assistance. Equally important is to increase the efficiency of aid through more effective delivery systems, improved harmonization of donor procedures and mutually agreed strategies. Poverty reduction strategies, as elaborated in Poverty Reduction Strategy Papers (PRSPs), have now become the main tool of policy dialogue between least developed countries and their development partners. However, the macroeconomic and sectoral underpinnings for PRSPs need to be sufficiently developed so that subsequent aid allocations effectively reflect the priorities established in the PRSPs.

5. Improving the investment climate

10. Foreign direct investment (FDI) flows to least developed countries increased from an annual average of $600 million per year during 1986-1996 to $3.7 billion per year during 1996-2000 and to $5.2 billion in 2002. However, these FDI flows are highly skewed towards natural resource-endowed countries in the group. Other least developed countries have not been successful in attracting FDI flows owing to such factors as their low level of human capital, weak infrastructure, unstable macroeconomic environment, weak legal, judicial and regulatory systems, corruption and the high cost of doing business (often because of excessive bureaucracy). Improving the investment climate is essential not only to attract FDI, but also to stem the flight of domestic capital and even prompt its return.

B. Recommendations

1. Institutionalizing appropriate governance systems

11. **Weaknesses in governance, such as lack of transparency and accountability in the public sector and occurrences of corruption, reduce the ability of least developed countries to participate in the global marketplace through trade, attract FDI and, increasingly, obtain external assistance as well. Least developed countries should strive for governance systems that are characterized by participation in and transparency of decision-making processes and that embody pro-poor policies, social safety nets, policies for the sustainable use of resources and effective monitoring. To this end, ways should be found to harness the power of new information and communication technologies.**

2. Achieving macroeconomic stability

12. **Governments should strive to develop the capacity to meet the standards for the design and implementation of sound fiscal, monetary and financial policies. In particular, given the unpredictability and volatility of commodity prices, least developed countries should establish national vulnerability reduction funds that would use the increased resources available during surges in commodity markets to temper the effects of cyclical downturns in prices.**

3. Improving financial management

13. **Central banks should be granted enough independence to carry on their function as monetary authorities without undue pressure to finance the**

Governments' fiscal deficits. Additionally, countries should work with international institutions to adopt appropriate financial sector standards and to build the capacity for regulation and supervision. Action should also be taken to strengthen public financial management and accountability, both to ensure that public resources are used according to the established priorities and to assure stakeholders that these resources are being managed in a prudent manner. On the revenue side, steps should be taken to widen the tax base, increase tax compliance and improve tax administration. Action to widen the tax base should include simplifying procedures, particularly those for establishing and regulating business, with a view to encouraging informal activities to operate as formal businesses and to enabling small and medium-sized enterprises to increase their productivity levels.

4. Fostering domestic savings

14. **In order to improve the generation and mobilization of domestic savings, three key conditions need to be met: incentives to save need to be enhanced, including ensuring positive real interest rates; the spread and reach of savings institutions should be sufficient to encourage savings and pooling of resources; and access to financial services should be such that households can save in forms that may be used as collateral for obtaining credit for investments.**

15. **Among the options recommended for consideration are the creation of microfinance networks — including mobile banking systems going to poor areas and collecting small amounts of money on a regular basis — to reduce the cost of borrowing and enhance the saving capacity of individuals; support to rotating savings and credit associations that permit the use of small amounts of capital for starting business ventures or buying land; and development of legal and regulatory frameworks that encourage commercial banks to establish links with locally based financial institutions, such as community banks and other credible microfinance institutions.**

5. Improving debt management and sustainability

16. **To enable least developed countries to mobilize additional resources, the debt issue needs to be addressed, consistent with the Programme of Action for the Least Developed Countries and the commitment to collective responsibility for the integration of the least developed countries into the global economy and the achievement of the Millennium Development Goals. To ensure that the debt of least developed countries is sustainable in the long term, donors should increase the share of official development assistance (ODA) in the form of grants, particularly to countries with high economic vulnerability. The total amount of loans on concessional terms for investment, especially in infrastructure and productive sectors such as agriculture and industry, should reward countries with successful policies and support their efforts towards growth and attraction of private capital. Least developed countries should improve their external debt management and be supported in such efforts, inter alia, by robust analysis of debt sustainability. International joint actions for debt reduction, like the HIPC Initiative, ought to reflect a higher degree of participation by poor countries.**

6. Improving ODA coordination and the PRSP process

17. **Development assistance for the least developed countries needs to be increased in quantity and made more effective through improved coordination among donors with recipients' development strategies. The potential for increasing aid effectiveness should be unleashed through untying of aid, aligning of support with country priorities, giving more aid as budget support on long-term commitments, and harmonizing donor policies and practices in all forms of aid delivery. Aid effectiveness can also be improved by reducing the uncertainty and unpredictability of aid flows through long-term commitments.**

18. **The PRSPs offer an opportunity to improve coordination among donors and to reduce the transaction costs of external assistance for recipients. Action needs to be taken to improve participation in the formulation of development strategies and policies through PRSPs and to prioritize the allocation of resources with a view to eradicating poverty. Action should be taken to make the macroeconomic frameworks for PRSPs part and parcel of national debates in the formulation of poverty-focused development strategies and policies. Poverty and social impact analysis of alternative macroeconomic policy scenarios should be carried out, with the support of development partners. The increasing focus on ownership and programme aid will require additional support for capacity-building to enable recipients to better manage external assistance.**

7. Using ODA as a catalyst for FDI

19. **Ways could be explored to use ODA as leverage for increasing the flow of FDI to least developed countries, without reverting to tied aid. This would include expanding the policy dialogue beyond the traditional Government-to-Government formula, so as to include private sector agents from both donors and least developed countries, in order to build the local capacity to compete effectively in world markets, including the ability to take advantage of the opportunities offered by various trade preferences such as the European Union (EU) Everything-but-Arms arrangement and the African Growth and Opportunity Act of the United States of America.**

8. Improving productive capacity

20. **Entrepreneurial capacity in least developed countries needs to be enhanced if the potential of small and medium-sized enterprises is to be realized. Training in business development and management should be provided to build the capacity of entrepreneurs in this important sector of the economy of least developed countries. Similarly, the productive and social infrastructure in these countries needs to be expanded and upgraded. Roads, bridges, ports and other infrastructure are required to enlarge markets within and between countries. Human capital also needs to be strengthened through social infrastructure, including schools, technical training and agricultural extension, as well as health services. Finally, investment in communication and information technologies increases productivity and allows the poor a stronger voice in decision-making and the mobilization and allocation of resources.**

Chapter III

Commitment to good governance, development and poverty reduction

1. Since the early 1990s, the notion of "good governance" as being necessary for sustainable development and poverty reduction has gained widespread currency, especially among international organizations. It is referred to in the United Nations Millennium Declaration (see General Assembly resolution 55/2), an agenda for reducing poverty and improving lives that world leaders agreed upon at the Millennium Summit in September 2000.[2]

2. Domestic concerns over what would later be labelled good governance had long been present in all regions of the world. However, during the cold war, these concerns were not accorded much importance in donor-recipient relationships. What helped put good governance at the forefront of the international agenda was a conjunction of several factors, principally the end of the cold war, a sense that market-based structural adjustment policies had failed to rekindle economic growth in many countries, and concern that aid was often ineffective in achieving its objectives. Bad policies and bad governance in recipient countries were considered largely responsible for these failures. Hence, good governance has become a condition for development assistance from donor agencies.

A. The evolving concept of good governance

3. Governance has been variously defined as the management of society by the people or as the exercise of authority to manage a country's affairs and resources. A consensus has yet to emerge as to its core meaning and how it could be applied in practice. Currently, there are two distinct streams of discourse on good governance: one is rooted in academic research and the other is donor-driven. Academic discourse has dealt mainly with the way in which power and authority relations are structured in different contexts, whereas the donor-driven discourse has focused more on State structures designed to ensure accountability, due processes of law, and related safeguards. Academic discourse is directed mainly towards better understanding of institutional linkages among the State, civil society and the private sector. Donor-driven discourse is oriented towards enhancing policy effectiveness.

4. The concept of good governance achieved prominence in donor discourse around 1990, when the World Bank adopted it as a condition for lending to developing countries. In the beginning, the notion was rather apolitical and focused primarily on improving the quality of public sector management. By the mid-1990s, most donors' concept of good governance had expanded to include the notions of transparency, accountability and participation. The aspect of predictability was added to the mix in the wake of the financial crises of the late 1990s, along with

[2] In the United Nations Millennium Declaration, world leaders resolved "to create an environment — at the national and global levels alike — that is conducive to development and to the elimination of poverty" and stated that "success in meeting these objectives depends, inter alia, on good governance within each country" and "also depends on good governance at the international level and on transparency in the financial, monetary and trading systems" (see General Assembly resolution 55/2, paras. 12 and 13).

calls for improvements in corporate governance and international financial market stability. Currently, the concept of good governance is being explored at three separate — if interacting — levels. The first is the national level which covers all of the standard elements of a political, economic and administrative nature. The second is the global level which encompasses all of those elements introduced by the process of globalization, including the regulation of global public goods and stability in capital flows. The third is the corporate level.

5. That the notion of corporate social responsibility or good corporate governance is gaining momentum in some developed countries can be interpreted as reflecting an attempt either to transcend social dilemmas that arise when choices made by profit-maximizing firms yield outcomes that are socially undesirable, or to reconcile the private sector's profit maximization motives and the public interest. The initiatives taken by the Japanese business community, the International Chamber of Commerce, the World Business Council for Sustainable Development and other entities, all of which have adopted codes of conduct relating to global environmental problems, are good examples in this regard.

6. The Committee focused its attention on governance at the national level. While the concept of what constitutes good governance at the national level will continue to evolve, it is currently predicated upon mutually supportive and cooperative relationships among government, civil society and the private sector. Hence, the nature of the relationships among these three groups of actors, and the need to strengthen viable mechanisms to facilitate their interaction, assume critical importance. Good governance is also regarded as entailing some combination of participation, transparency of decision-making, accountability, rule of law and predictability.

7. "Good" governance is a normative concept. As such, the values that provide the underpinning for governance are those postulated by the defining institutions or actors. Recognition of this fact is particularly important in the context of the donor-recipient relationship, insofar as the presence of such values might lead to an insistence that donor-derived standards of conduct be adopted in non-donor politico-cultural contexts.

8. Finally, governance has an instrumental value, as a means to an end. This raises the question, "Good governance for what?" It is the view of the Committee that standards of good governance ought to be applied within the national, global and corporate domains to serve the goals of poverty reduction, sustainable growth, social equality and participation.

B. Measuring good governance for poverty reduction

9. How to measure good governance, as well as which indicators to select, is based on analytical frameworks that are normative in character. Hence, the same indicator may elicit different interpretations depending on which value judgements are utilized. Likewise, different sets of indicators may be used to measure governance, depending on the nature of the ends in question.

10. The Committee reviewed several approaches to the measurement of good governance at the national level and found some useful examples where the goals of social equality and poverty reduction had been explicitly included in the

construction of questionnaires and self-assessment methodologies. Three examples of good governance models for developing countries are presented below.

1. Economic Commission for Africa (ECA) project

11. The objective of this project is to monitor the progress towards good governance in a sample of 28 countries in the five subregions of Africa.[3] At present, the methodology and data-collection instruments have been developed, but the fieldwork is still under way.

12. Six components of good governance have been identified: (a) a political system that encourages input from all groups of civil society; (b) impartial and credible electoral administration, and an informed and active citizenry; (c) strengthened public sector legislative and administrative institutions; (d) transparency, predictability, and accountability in decisions by government and public bodies; (e) effective public sector management with stable macroeconomic conditions, effective resource mobilization, and efficient use of public resources; and (f) adherence to the rule of law in a manner that protects personal and civil liberties and gender equity, and ensures public safety and security with equal access to justice for all.

13. Three survey instruments are being used: (a) an expert panel on issues pertaining to governance; (b) a survey measuring the perception of the adult population; and (c) factual information and empirical data. Together, these three instruments yield data on 83 indicators, intended for use in country reports, subregional reports, and a pan-African governance report.

2. Asian Development Bank/Viet Nam

14. The Poverty Task Force of the Asian Development Bank has produced a proposal intended to serve as an input for the implementation of the Comprehensive Poverty Reduction and Growth Strategy of the Government of Viet Nam. Five areas of governance have been identified for improvement: (a) a more efficient public service; (b) more transparent public financial management; (c) wider access to justice and ensuring its universal application; (d) more participative and responsive government; and (e) a government that fights corruption at all levels.

15. Eight outcome and process indicators have been developed to assess progress in the five areas, namely: (a) level of information publicly available regarding services, policies and planning arrangements at all levels; (b) extent of access of the poor to such basic government services as health, education, infrastructure, water and power at the local level; (c) level of budget transparency regarding provincial and local taxation, budgeting and spending patterns in each sector; (d) extent to which, at the national level, the level of expenditure that is targeted to pro-poor purposes is predictable from year to year; (e) extent to which the decisions and verdicts of courts and tribunals are publicly available; (f) extent to which local government is responsive and follows up on service delivery problems that are brought to its attention by the poor; (g) extent to which the Grass-roots Democracy

[3] See Economic Commission for Africa, "The UNECA and good governance in Africa", presentation by K. R. Hope, Sr.; to the Harvard International Development Conference, 2003 (Boston, 4 and 5 April 2003), available at: http://www.uneca.org/eca_programmes/development_policy_management (p. 8).

Decree has been implemented in each commune so as to improve opportunities for public participation; and (h) extent to which laws combating corruption are effective.

3. African Peer Review Mechanism

16. The African Peer Review Mechanism (APRM) is a mutually agreed instrument voluntarily acceded to by the member States of the African Union (AU). It is a self-monitoring mechanism intended to foster the adoption of policies, standards and practices that will lead to political stability, sustainable development and regional and continental integration through sharing of experiences and of successful best practices, including identifying deficiencies and assessing the need for capacity-building.

17. The African Peer Review Mechanism is open to all member States of AU. At present, 16 members have voluntarily acceded and several others have indicated their intention to join. The main principles of the Mechanism processes include national ownership and leadership, transparency and broad-based participation.

18. The African Peer Review Mechanism focuses on four main areas with specific objectives, standards and codes, criteria and indicators in terms of which the programmes and policies of the participating countries will be assessed. These include:

(a) *Political governance*, with the following objectives: (i) prevention and reduction of intra- and inter-State conflicts; (ii) constitutional democracy, including free and fair competition for power, and the rule of law; (iii) promotion and protection of economic, social and cultural rights and civil and political rights, as well as the rights of women, children and all vulnerable groups; (iv) separation of powers, including the protection of the independence of the judiciary and of an effective legislature; (v) accountability and efficiency of public office holders; and (vi) fighting political corruption;

(b) *Economic governance*, with the following objectives: (i) macroeconomic policies conducive to sustainable development; (ii) sound, transparent and predictable government policies, including public finance management; (iii) fighting corruption; and (iv) promoting regional integration;

(c) *Corporate governance*, with the following objectives: (i) enabling environment for economic activities; (ii) good corporate citizenship, including social responsibility; (iii) good business ethics; (iv) fair treatment of all stakeholders; and (v) accountability of corporate officers and directors;

(d) *Socio-economic development*, with the following objectives: (i) promotion of self-reliance; (ii) sustainable development and poverty eradication; (iii) delivery mechanism and outcomes in key social areas, including education, and combating HIV/AIDS; (iv) affordable access to key social services, water, sanitation, energy, finance, shelter and land; (v) progress towards gender equality; and (vi) encouragement of broad-based participation in development by all stakeholders.

19. The above examples use different indicators to reflect different dimensions of governance. Although there is a broad understanding of the concept, a great deal of variation exists in the specification of measures. Scales, indices and weights to

measure good governance are used for a variety of purposes — for cross-national comparisons and rankings, but also for tracking the development record of a country over time. In the former case, the issue is how to develop indicators that are valid and can be reliably measured internationally. In the latter case, indicators are generally custom-tailored to the country context. Validity of measurement is a problem with some of the indices. Reliability is another problem, particularly when numerical scores assigned to indicators are based on subjective appraisals.

20. Of particular relevance to developing countries would be the development of indicators that focused on governance in an instrumental sense, as the ability of a country to make use of the interaction with the rest of the world to deliver development and poverty reduction. Governance in this instrumental sense would entail: (a) the ability to conduct relations with other countries in trade and finance, environmental affairs, conflict situations and donor-recipient settings according to internationally accepted rules of behaviour and mutually agreed norms; and (b) the ability to use resources domestically in efficient, transparent and accountable ways, while allowing for different kinds of regimes and different politico-cultural contexts.

21. If objective and measurable criteria could be developed for governance as constituting such an instrumental ability, international bodies could assess and rank countries for the benefit of both donor countries and the developing countries themselves.

C. Recommendations

22. As an intrinsic good, good governance is a sine qua non for the attainment by a society and an economy of the maximum welfare possible given limited resources availability. **For developing countries, good governance is a necessary condition for expanding their ability to generate income and reduce poverty in the future.** Good governance also enhances economic efficiency and reduces transaction costs through the effective application of the rule of law, transparency in government and corporate management, and accountability for every institution and individual in society. To the extent that good governance catalyses civil society to increase the rate of physical and human capital accumulation, it can also help to reduce developing countries' dependency and vulnerability, and even ameliorate the impact of economic vulnerability.

23. **Designing institutions and mechanisms for good governance in developing countries should be an interactive process between donor Governments and international organizations and recipient countries. On the one hand, measures imposed are likely to fail when insufficient consideration is given to the culture and history of the recipients. On the other hand, recipient countries need assistance from donors in ensuring that their institutions and social, political and economic processes resemble more closely those required by good governance.**

24. **Developing countries should continue to participate in the discourse on good governance and should develop expertise and capacity in this area. Improving governance should be part of their national policy agenda and should be implemented in ways that are relevant to their particular conditions.**

25. **International institutions that establish global norms and standards for aspects of good governance should involve developing countries, including the least developed countries, in their deliberations. Moreover, such bodies should themselves be subject to good governance principles.**

Chapter IV
Matters related to the 2003 triennial review of the list of least developed countries

1. The Committee has been mandated since 1971 to conduct triennially a review to determine the countries to be added to or graduated from the list of least developed countries, and to make recommendations in that regard to the Economic and Social Council and the General Assembly. The first set of criteria for identification of least developed countries was established by the Committee for Development Planning in 1971. The criteria were improved both by that Committee and by its successor, the Committee for Development Policy, in 1991, 2000 and 2003.

A. Criteria for the identification of the least developed countries

2. In its report on its first session held in 1999,[4] the Committee for Development Policy reaffirmed that the least developed country category should include countries with a low per capita income, a low level of human resource development and a high degree of economic vulnerability.[5] The Committee thus bases its identification of the least developed countries on criteria designed to measure three dimensions of a country's state of development: (a) its income level, measured by gross national income (GNI) per capita; (b) its stock of human assets, measured by a human assets index (HAI); and (c) its economic vulnerability, measured by an economic vulnerability index (EVI). The type of vulnerability to be considered in the identification of the least developed countries is structural vulnerability: the Committee does not consider that vulnerability caused by government policies should be taken into account.

3. For each triennial review, the Committee determines threshold levels for the three above-mentioned criteria. These thresholds are used to identify the countries to be added to or graduated from the category. As endorsed by Economic and Social Council and General Assembly resolutions, *to become eligible for graduation* a country must meet the threshold for two of the three criteria; *to qualify for graduation*, it must do so in two consecutive triennial reviews. To be added to the list, a country must satisfy all three criteria.

4. The Committee has consistently recognized that further improvements could be made to the criteria, particularly when new or more reliable data for individual indicators become available. For example, this was the case with the addition to the EVI of a sixth component — namely, the proportion of people displaced by natural disasters — in the 2003 review. Similarly, the 2000 review had included two changes in relation to the human assets criterion (then called the Augmented Physical Quality of Life Index (APQLI)): per capita daily calorie intake was replaced by per capita daily calorie intake as a percentage of daily requirements; and life expectancy at birth was replaced by the under-five child mortality rate.

5. The Committee emphasizes that the identification of least developed countries should be viewed as a dynamic and open process, requiring periodic refinement of

[4] *Official Records of the Economic and Social Council, 1999, Supplement No. 13* (E/1999/33).
[5] Ibid., annex II.

the criteria, in the light of socio-economic development and ongoing improvements in and the availability of reliable and internationally comparable data. In preparation for the 2006 triennial review of the list of least developed countries, the Committee, at its seventh session in 2005, will thus examine possible further refinements to the criteria.

6. In addition, the Committee has fully recognized that small countries are economically more vulnerable to external shocks than large ones because their economies are heavily dependent on external trade, are less diversified and suffer from diseconomies of scale. In particular, most small island and landlocked least developed countries face a range of structural handicaps, such as high international transportation costs and relative isolation from major world markets. For those reasons, the Committee is currently considering how the notion of remoteness of countries could be included in the economic vulnerability criterion to be used in the 2006 triennial review of the list. Noting the increasing importance of e-readiness for development, the Committee will also reflect on whether that factor might be taken into account in the next review in determining the list of least developed countries.

B. Period of transition from least developed country status

7. The Committee has identified two periods of transition for countries graduating from the least developed country category. The *pre-graduation transition* period refers to the three-year period between a triennial review of the list that finds a country eligible for graduation and the subsequent triennial review when its qualification for graduation is confirmed by the Committee. The *post-graduation transition* period begins when the General Assembly endorses a recommendation made by the Economic and Social Council to graduate a country from the list, on the basis of the Committee's finding that it qualifies for graduation.

8. These two periods of transition have different policy implications, as elaborated in recommendations 3 and 4 in chapter I above. In the case of post-graduation transition, in particular, a smooth transition strategy would relate to further steps to be taken to ensure that the graduated country continues to build on the progress achieved thus far. The Committee proposes that post-graduation transition cover a period to be decided by an advisory group — on a country-by-country basis — to be established after the Committee's recommendation to graduate a least developed country is endorsed by both the Economic and Social Council and the General Assembly (see recommendation 4 (b) above). The Committee stresses that the primary aim of a smooth transition strategy — as discussed in the following sections — relates to post-graduation support measures provided by the international community to the graduated country.

C. Smooth transition strategies for countries that graduate from the list

9. The Committee emphasizes that, when a country that has long been recognized as "least developed" qualifies for graduation, the graduation reflects the country's success in its development and in its ability to achieve a favourable transformation of its economy. The Committee views such success as attributable to a mix of sound domestic policies and propitious external conditions. The support provided by

bilateral and multilateral partners thus plays an important role in the successful development of graduated countries. Consequently, a sudden withdrawal of support to the graduated country by its bilateral and multilateral development partners could have adverse effects, possibly reversing some of the development progress achieved.

10. The Committee has consistently drawn attention to the importance of smooth transition measures for graduated countries, as elaborated in the reports of its third, fourth and fifth sessions. As stressed in the report of its fourth session,[6] the Committee considers "smooth transition as a principle of paramount importance to the graduating countries, insofar as these countries are likely to remain dependent, to varying degrees, on external support".[7] In addition, the Committee stresses that the cost to development partners of measures in support of a (post-graduation) smooth transition would be negligible. As a result, the Committee has made a series of recommendations (see chap. I.A above) to ensure a smooth transition of countries that graduate from the least developed country category.

11. A number of representatives of international organizations that could contribute to smooth transition strategies — the World Trade Organization, the secretariat of the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD/DAC), the World Bank, the United Nations Development Programme (UNDP), the Economic and Social Commission for Asia and the Pacific (ESCAP) and the United Nations Conference on Trade and Development (UNCTAD) — addressed the Committee. Those representatives presented their individual perspectives on graduation and its possible consequences from the point of view of their organizations. They also provided information about their facilities in the areas of trade-related assistance, development finance and technical cooperation that could support the smooth transition of graduated least developed countries.

12. The Committee was informed that the World Trade Organization had a number of special dispensations and programmes of assistance specifically designed for the least developed countries, but it was emphasized that entitlement to these was determined by the members of the World Trade Organization, not by its secretariat. In the case of market access, any specific decision on preferential treatment rested with the individual trading partners, albeit within the framework of the World Trade Organization. Other organizations indicated that their assistance and cooperation with a country would not be directly or automatically affected if the country was graduated from least developed country status. At the World Bank, graduating least developed countries remain eligible for financing from the International Development Association (IDA): this is particularly the case for the countries currently being considered for graduation, since they are among the (few) small island States that are, as an exception, eligible for IDA funding even if they exceed the per capita income threshold for eligibility. The Committee took particular note of the flexibility that was applied in implementing some of the arrangements related to least developed countries status, notably through the Enabling Clause in the case of the World Trade Organization, and also took note of the fact that OECD/DAC members could extend their offer of untied aid to least developed countries that graduated from the category.

[6] Ibid., *2002, Supplement No. 13* (E/2002/33).

[7] Ibid., para. 159.

13. The Committee also examined an updated background document prepared by UNCTAD entitled "Benefits and anticipated implications of graduation from least developed country status".[8]

[8] An earlier version was contained in annex II of the report of the Committee on its fourth session. The updated version of the document is available on the Committee's home page (http://www.un.org/esa/analysis/devplan/index.html) maintained by the United Nations Secretariat.

Chapter V
Organization of the session

1. The sixth session of the Committee for Development Policy was held at United Nations Headquarters from 29 March to 2 April 2004. Twenty-one members of the Committee, as well as observers for several organizations within and without the United Nations system, attended the session. The list of participants is contained in annex I.

2. The Department of Economic and Social Affairs of the United Nations Secretariat provided substantive services for the session.

3. Mr. Ian Kinniburgh, Director of the Development Policy and Planning Office of the Department of Economic and Social Affairs, opened the session, welcomed the participants and proposed that the Committee nominate the members of its Bureau. The Committee then proceeded to elect the following members of its Bureau:

Chairperson:
Ms. Suchitra Punyaratabandhu

Vice-Chairperson:
Mr. Milivoje Panić

Rapporteur:
Ms. Sylvia Saborio

4. The agenda for the sixth session and the list of documents before the Committee thereat are contained in annexes II and III, respectively.

Annex I

List of participants

1. The following members of the Committee attended the session:

1. Ms. N'Dri Thérèse Assié-Lumumba
2. Ms. Patricia Bifani-Richard
3. Mr. Albert Binger
4. Mr. Olav Bjerkholt
5. Ms. Gui-Ying Cao
6. Mr. Eugenio B. Figueroa
7. Mr. Leonid M. Grigoriev
8. Mr. Patrick Guillaumont
9. Ms. Heba Handoussa
10. Prof. Hiroya Ichikawa
11. Ms. Willene A. Johnson
12. Ms. Marju Lauristin
13. Mr. Milivoje Panić
14. Ms. Suchitra Punyaratabandhu
15. Ms. Sylvia Saborio
16. Mr. Nasser Hassan Saidi
17. Mr. Udo Ernst Simonis
18. Ms. Funmi Togonu-Bickersteth
19. Mr. G. Usvatte-Aratchi
20. Mr. Samuel Mwita Wangwe
21. Mr. Kerfalla Yansane

2. The following organizations, bodies, agencies, programmes and funds of the United Nations system were represented at the session:

- Department of Economic and Social Affairs
- Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States
- Office of the Special Adviser on Africa
- Economic and Social Commission for Asia and the Pacific
- United Nations Children's Fund
- United Nations Conference on Trade and Development
- United Nations Development Programme

- United Nations Environment Programme
- United Nations Population Fund
- United Nations University
- World Food Programme
- Food and Agriculture Organization of the United Nations
- International Labour Organization
- United Nations Educational, Scientific and Cultural Organization
- United Nations Industrial Development Organization
- World Bank
- World Health Organization
- World Trade Organization

3. The following organization outside the United Nations system was also represented at the session:

- Development Assistance Committee of the Organization for Economic Cooperation and Development

Annex II

Agenda

1. Election of officers.
2. Adoption of the agenda and organization of work.
3. Resources mobilization and enabling environment for poverty eradication in the context of the implementation of the Programme of Action for the Least Developed Countries for the Decade 2001-2010:
   (a) Innovative approaches to domestic resource mobilization in least developed countries;
   (b) New approaches to debt relief and debt sustainability in least developed countries;
   (c) Specific measures to accelerate poverty reduction in least developed countries.
4. The 2003 triennial review of the list of least developed countries:
   (a) Recommendations regarding countries that qualified for graduation in the 2003 triennial review;
   (b) Possible measures to ensure a smooth transition for countries graduating from least developed country status;
   (c) Possible improvements in the economic vulnerability index: consideration of country remoteness.
5. Commitment to good governance, development and poverty reduction:
   (a) Definition and measurement of good governance;
   (b) Governance and poverty reduction;
   (c) Tools for assessing progress towards good governance.
6. Other matters.
7. Suggestions for future work.
8. Discussion on and adoption of the report of the Committee for Development Policy on its sixth session.

Annex III

List of documents before the Committee at its sixth session

Document symbol	*Title or description*
CDP2004/PLEN/1	List of documents
CDP2004/PLEN/2	Agenda
CDP2004/PLEN/3	List of participants
CDP2004/PLEN/4	Report of the Expert Group Meeting on Resource Mobilization for Poverty Eradication in the Least Developed Countries available at: http://www.un.org/esa/analysis/devplan/index.html
CDP2004/PLEN/5	Economic and Social Council decision 2003/280 on Timor-Leste
CDP2004/PLEN/6	Economic and Social Council decision 2003/281 on Cape Verde and Maldives
CDP2004/PLEN/7	Economic and Social Council decision 2003/316 on chapter IV of the report of the Committee for Development Policy on its fifth session
CDP2004/PLEN/8	Report of the Committee for Development Policy on its fifth session, available at: http://www.un.org/esa/analysis/devplan/index.html
CDP2004/PLEN/9	Extract from the vulnerability profile of Maldives regarding smooth transition
CDP2004/PLEN/10	Extract from the vulnerability profile of Cape Verde regarding smooth transition
CDP2004/PLEN/11	Note verbale dated 1 July 2003 from the Permanent Mission of Maldives to the United Nations transmitting a letter from the President of Maldives to the President of the Economic and Social Council (E/2003/97)
CDP2004/PLEN/12	Letter dated 2 July 2003 from the Permanent Representative of Maldives to the United Nations addressed to the President of the Economic and Social Council (E/2003/98)
CDP2004/PLEN/13	Letter dated 16 July 2003 from the Chargé d'affaires a.i. of the Permanent Mission of Cape Verde to the United Nations addressed to the President of the Economic and Social Council (E/2003/103)

Document symbol	*Title or description*
CDP2004/PLEN/14	Review of the list of least developed countries: note by the Secretariat
CDP2004/PLEN/15	Benefits from multilateral organizations for the least developed countries and anticipated implications of graduation, available at: http://www.un.org/esa/analysis/devplan/index.html
CDP2004/PLEN/16	Revised EVI, available at: http://www.un.org/esa/analysis/devplan/index.html
CDP2004/PLEN/17	An overview of desirable "smooth transition" modalities for countries graduating from least developed country status: note prepared by UNCTAD
CDP2004/PLEN/18	Commitment to good governance, development and poverty reduction: methodological issues in the evaluation of progress at national and local levels, available at: http://www.un.org/esa/analysis/devplan/index.html
CDP2004/PLEN/19	Report of the Committee of Experts on Public Administration on its second session (7-11 April 2003)*
CDP2004/PLEN/20	Appointment of members of the Committee for Development Policy (E/2004/L.1), available at: http://www.un.org/esa/analysis/devplan/index.html

* *Official Records of the Economic and Social Council, 2003, Supplement No. 44* (E/2003/44).

04-36952 (E) 180604